

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 L-03 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 AF-06

SAM-01 /067 W

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 4401

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L LISBON 5683

E.O. 11652: GDS

TAGS: BFIN, BGEN, PO

SUBJ: RENEGOTIATION OF \$150 MILLION STANDBY LOAN

REF: (A) LISBON 5078 (NOTAL)

(B) LISBON 5362 (NOTAL)

1. CITICORP LONDON VP GEORGE PUTNAM AND HIS LEGAL COUNSEL CALLED ON ME MORNING OF SEPTEMBER 25 TO DISCUSS \$150 MILLION STANDBY CREDIT FROM PRIVATE BANK CONSORTIUM TO GOP. HE STATED THAT, IN OPINION OF HIS LEGAL ADVISOR, GOP HAD VIOLATED ITS AGREEMENT WITH CONSORTIUM BY COMMITTING GOLD SECURITY FOR \$250 MILLION LOAN FROM BIS. CONSORTIUM MEMBERS WERE REPORTEDLY PRESSING CITICORP, AS CO-MANAGER, TO REPORT THIS LEGAL OPINION TO GOP. THEY WISHED TO DECLARE A DEFAULT, AND THUS CANCEL LOAN AGREEMENT, OR OBTAIN A GOLD PLEDGE. IF A GOLD PLEDGE WERE OBTAINED, PUTNAM SAID, CITICORP WOULD BE WILLING CONSIDER GOING INTO INTERNATIONAL MARKET ON BEHALF OF GOP TO OBTAIN ANOTHER LOAN, PROVIDED IT ALSO SECURED BY GOLD. VALUE OF SUCH A LOAN
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MIGHT BE \$150 TO 200 MILLION, BUT COULD NOT PREDICT WITH ANY

CERTAINTY AT THIS POINT. MUCH DEPENDED UPON CURRENT DEVELOPMENTS, NOTABLY EC AND USG AID POLICIES TOWARD PORTUGAL. BANKERS WERE SCHEDULED TO DISCUSS SITUATION WITH BANK OF PORTUGAL (BOP) LATER THAT MORNING.

2. EMBASSY HAD LEARNED PREVIOUS DAY THAT GOP INTENDED TO DRAW AGAINST CONSORTIUM LOAN DURING NEXT FEW WEEKS. LIQUID RESERVES OF BOP ARE BEING DRAWN DOWN FASTER THAN ANTICIPATED AND MAY BE EXHAUSTED IN NOVEMBER. (TO A LARGE EXTENT ACCELERATED DRAW-DOWN CAUSED BY RECENT DECISION OF MANY FOREIGN BANKS TO REDUCE SHARPLY OR TERMINATE THEIR SHORT-TERM CREDITS AS THEY MATURE.) GOP HOPED TO DRAW ON U.S. CONSORTIUM LOAN TO PROVIDE TIME FOR IT TO ARRANGE MORE EXTENSIVE GOLD-SUPPORTED CREDITS AND TO ADOPT CORRECTIVE POLICY DECISIONS.

3. I WAS CONVINCED THAT CANCELLATION OF LOAN AGREEMENT WOULD BE EXTREMELY DAMAGING. IT WOULD ACCELERATE INTERNATIONAL FINANCIAL COMMUNITY'S RETREAT FROM PORTUGAL AND, THEREBY, LIMIT SEVERELY GOP FINANCIAL/ECONOMIC POLICY OPTIONS. I URGED BANKERS, THEREFORE, TO PURSUE GOLD SECURITY, RATHER THAN DEFAULT, OPTION IN THEIR DISCUSSIONS WITH BOP. GIVEN POLITICAL IMPLICATIONS THIS ISSUE, I ARRANGED FOR A NOON MEETING WITH MINISTER OF FINANCE SALGADO ZENHA.

4. PUTNAM AND ASSOCIATES ARRIVED LATE FROM BOP FOR OUR MEETING WITH MINISTER ZENHA, BUT DELAY WAS EASILY EXPLAINED. THEY HAD WORKED OUT TENTATIVE AGREEMENT WHEREIN CONSORTIUM LOAN WOULD ALSO BE SECURED BY GOLD. PUTNAM WILL CONSULT OTHER MEMBERS OF CONSORTIUM AND THEN GIVE GOP A DRAFT AMENDMENT OF CURRENT AGREEMENT. GOP, MEANWHILE, WILL REVIEW ITS OUTSTANDING LOANS TO ENSURE THAT SIMILAR GOLD PLEDGE WOULD NOT BE REQUIRED FOR OTHER LARGE EXISTING LOANS. INITIAL IMPRESSION OF GOP OFFICIALS, HOWEVER, WAS THAT NO OTHER SIGNIFICANT LOAN WOULD BE EFFECTED. ACHIEVEMENT OF THIS TENTATIVE AGREEMENT TURNED VISIT WITH MINISTER ZENHA INTO LARGELY PROTOCOL CALL, BUT DID EMPHASIZE OUR CONTINUING CONCERN OVER PORTUGAL'S EXTERNAL FINANCIAL CRISIS.

5. BOTH SIDES SEEMED GENUINELY DESIROUS OF FORMALIZING THEIR TENTATIVE AGREEMENT. SHOULD OPPORTUNITY PRESENT ITSELF, HOWEVER, DEPARTMENT IS REQUESTED TO URGE THAT BANKERS PRESS FOR CONFIDENTIAL

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PROMPT COMPLETION OF FORMAL AGREEMENT AND THAT THEY CONSIDER SYMPATHETICALLY A GOP REQUEST FOR ANOTHER GOLD-SECURED LOAN. CARLUCCI

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